

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

CENTRAL ILLINOIS LIGHT COMPANY

Petition requesting entry of an order)
determining that the Commission has)
sufficient authority, resources and access)
to books and records of petitioner and)
any relevant affiliate to exercise its duties,)
and determining that the execution and)
performance of a contract between)
petitioner and an affiliated exempt)
wholesale generator for the purchase by)
petitioner of energy at wholesale will)
benefit consumers, does not violate any)
State law, would not provide the exempt)
wholesale generator any unfair competitive)
advantage, and is in the public interest,)
in accordance with Section 79z-5a(k)(2))
of the Public Utility Holding Company)
Act of 1935, as amended.)

No. 00-0816

PETITION

Central Illinois Light Company (CILCO) requests the Illinois Commerce Commission (Commission) to enter an order finding and determining, in accordance with the provisions of Section 79z-5a(k)(2) of the Public Utility Holding Company Act of 1935, as amended ("Act" or "Holding Company Act") (15 U.S.C.A. Section 79z-5a(k)(2)), that the Commission will have sufficient regulatory authority, resources and access to books and records of CILCO and AES Medina Valley Cogen LLC (Medina) to oversee and regulate the other determinations herein requested, and further determining that if CILCO enters into a

contract with Medina for the purchase of wholesale energy as set forth in Exhibit A attached to this Petition, the contract and the purchase of wholesale energy thereunder will benefit customers, does not violate any State law, would not provide Medina any unfair advantage by reason of its affiliation or association with CILCO, and is in the public interest.

In support of this Petition, CILCO shows to the Commission as follows:

1. CILCO is an Illinois corporation engaged, among other things, in the generation, transmission, sale and delivery of electricity to the public within a designated service area in the State of Illinois, and is a public utility subject to the jurisdiction of the Commission.

2. Medina is a limited liability company organized and existing under the laws of the State of Illinois, and is a wholly-owned subsidiary of AES Corporation, the parent of CILCO. Medina and CILCO are "associate companies" as that term is used in the Holding Company Act, and are "affiliated interests" as that term is used in the Illinois Public Utilities Act.

3. Medina is engaged in the construction and operation of a cogeneration plant, which will provide an average of approximately 40 Mw of electric power and energy to CILCO, principally for re-sale to Caterpillar Inc.(Caterpillar), and will provide steam heat service and chilled water service to CILCO for re-sale to the Mossville, Illinois, Performance Engine Products Division plant of Caterpillar, in accordance with the provisions of the Tolling Agreement (Agreement) to be executed between CILCO and Medina. A copy of the Agreement is attached hereto as Exhibit A.

4. In a separate petition being filed with the Commission by CILCO contemporaneously with this Petition, CILCO is requesting approval and authorization from the Commission, to the extent the Commission has jurisdiction, to execute and perform the Agreement, together with a Consent Agreement and a Receivables Agreement related to the Agreement. CILCO incorporates that petition herein and by reference makes it a part of this Petition.

5. It is a condition of the Agreement that Medina be an Exempt Wholesale Generator under the provisions of the Holding Company Act. Medina meets the requirements of the Act to be an Exempt Wholesale Generator, in that Medina will operate only the cogeneration plant and will sell the electric power and energy output of the cogeneration plant solely at wholesale. However, Section 79z-5a(k) of the Act provides that after October 24, 1992, an electric utility company may not enter into a contract to purchase electric energy at wholesale from an exempt wholesale generator if the exempt wholesale generator is an affiliate or associate company of the electric utility, unless, prior to the electric utility entering into the contract, every State commission having jurisdiction over the retail prices of the electric utility makes each of the following specific determinations:

(i) A determination that such commission has sufficient regulatory authority, resources and access to books and records of the electric utility company and any relevant associate, affiliate or subsidiary company to exercise its duties under this subparagraph.

(ii) A determination that the transaction —

(I) will benefit customers,

(II) does not violate any State law (including where applicable, least cost planning),

(III) would not provide the exempt wholesale generator any unfair competitive advantage by virtue of its affiliation or association with the electric

utility company, and
(IV) is in the public interest.

**THE COMMISSION HAS SUFFICIENT REGULATORY AUTHORITY OVER CILCO
AND SUFFICIENT ACCESS TO THE BOOKS AND RECORDS OF MEDINA
RELATED TO TRANSACTIONS WITH CILCO TO ASSURE THAT THE OTHER
DETERMINATIONS REQUESTED OF THE COMMISSION HEREIN ARE AND WILL
REMAIN ACCURATE:**

6. Because CILCO is an electric utility doing business in Illinois, the Commission has regulatory jurisdiction over CILCO, including the annual review of the prudence of CILCO's actions with respect to costs recovered through the fuel adjustment clause, and the right to require information from CILCO with respect to regulated transactions and transactions with affiliates. The Commission has in place rules which govern the conduct of public utilities with their affiliates, including a requirement for biennial audits by utilities of their transactions with affiliates. The Commission has also approved specific procedures applicable to CILCO in dealings between CILCO and its affiliates. Further, Section 7-101 of the Public Utilities Act gives the Commission jurisdiction over affiliated interests having transactions with public utilities under the Commission's jurisdiction, to the extent of access to all accounts and records of such affiliated interests relating to such transactions, including access to accounts and records of joint or general expenses, any portions of which may be applicable to such transactions, and to the extent of authority to require such reports with respect to such transactions to be submitted by such affiliated interests, as the Commission

may prescribe. These provisions, together with the Commission's regulatory jurisdiction over CILCO, assure that the Commission will be able to review and enforce the other determinations requested in this Petition and required by the Holding Company Act to permit CILCO to purchase wholesale energy from an associate company that is an exempt wholesale generator.

THE PROPOSED AGREEMENT WILL BENEFIT CONSUMERS:

7. CILCO is currently capacity-deficient, in that CILCO must purchase power and energy from third-party providers to meet the on-peak requirements of CILCO's bundled electric customers. The cost of such purchased power and energy is generally higher than the cost of generation from CILCO's own generating units, and the increased cost is passed on to CILCO's customers through CILCO's fuel adjustment clause. The execution and performance of the Agreement will reduce by approximately 40 Mw the load placed upon CILCO's system by Caterpillar's Mossville, Illinois PEPD plant, and thereby reduce in an equal amount CILCO's dependence upon the energy market to provide power and energy for CILCO's remaining bundled customers and result in reduced overall energy costs to the bundled customers. During any periods when the total power and energy produced by Medina are not used by Caterpillar, the excess energy may be used by CILCO to serve its bundled customers. In addition, if the Medina facility is placed into service, Caterpillar will make available to CILCO through displacement of energy, at no cost to CILCO other than the cost of operation and maintenance, 14 Mw of capacity from generating sets located in the

Caterpillar plants. These generating units were previously used by Caterpillar during interruptible periods pursuant to an interruptible service contract with CILCO. CILCO now will be permitted to use the capacity during other periods, including periods when the cost of operating the generating sets is less than the cost of alternative power and energy. The reduced cost will directly benefit CILCO's customers.

8. The additional capacity available to CILCO as a result of executing and performing the Agreement will, during the next 20 years, significantly reduce the dependence of CILCO upon purchases from third parties to meet the energy requirements of bundled customers, and substantially reduce the exposure of customers to the volatility and high prices that may occur in the energy market. Although CILCO will be required to pay a demand charge to Medina that will not be directly recovered through the resale of power and energy produced by Medina, CILCO's base rates cannot be increased until the end of the mandatory transition period on January 1, 2005. Therefore, CILCO's bundled customers will not experience any increase in base rates before January 1, 2005, as a result of the execution and performance of the Agreement, but during the same period will obtain a substantial reduction in fuel adjustment charges and in exposure to market risk. Even if CILCO's fuel adjustment clause is eliminated pursuant to a petition presently pending before the Commission in Docket No. 00-0579, savings to bundled customers as a result of the Agreement will be included in the calculation of the FAC charges to be included in base rates when the FAC is eliminated. Therefore, there are multiple direct benefits to CILCO's customers as a result of purchasing wholesale energy from Medina pursuant to the Agreement. However, without the

determinations requested in this Petition, CILCO cannot lawfully purchase wholesale energy from Medina.

**THE EXECUTION AND PERFORMANCE OF THE AGREEMENT DO NOT
VIOLATE ANY ILLINOIS LAW**

9. Section 8-403 of the Public Utilities Act encourages the economic use of cogeneration. Further, Section 16-111(g)(3) of the Public Utilities Act specifically contemplates that electric utilities in Illinois will purchase wholesale power and energy from affiliated entities pursuant to prices, terms and conditions approved or allowed into effect by the Federal Energy Regulatory Commission (FERC). The Agreement between CILCO and Medina is subject to FERC approval, and the prices, terms and conditions of the sale of power and energy to CILCO by Medina under the Agreement will be approved by FERC. Accordingly, the execution of the Agreement and the sale of wholesale energy by Medina to CILCO will not violate Illinois law.

**THE PURCHASE OF WHOLESALE ENERGY FROM MEDINA WILL NOT PROVIDE
MEDINA ANY UNFAIR COMPETITIVE ADVANTAGE**

10. The prices, terms and conditions of the sale of wholesale energy by Medina will be subject to approval by FERC. Moreover, the amounts paid by CILCO to Medina for energy, steam heat service, and chilled water service will, except for the payment of fixed energy charges, be essentially a pass-through to Caterpillar. As an interested third

party whose economic interest will be directly affected by any advantage given to Medina, Caterpillar will monitor all operations and transactions to protect its rights. Because the prices, terms and conditions must be approved by FERC and Caterpillar will be protecting its own interests, the purchase of wholesale energy under the Agreement will not result in any unfair advantage to Medina. Further, under Section 7-101 of the Public Utilities Act, the Commission will have continuing oversight over the books and records of both CILCO and Medina with respect to transactions between them. The Commission will also have access to biennial audits of transactions between CILCO and its affiliates. These provisions further assure that there will be no unfair advantage to Medina.

THE PURCHASE OF WHOLESALE ENERGY FROM MEDINA IS IN THE PUBLIC INTEREST

11. As set forth above, the Agreement will reduce CILCO's dependence upon purchases of energy from third parties, reduce costs to CILCO's bundled customers, and reduce the risk from exposure to volatile market-based pricing. Further, by providing steam heat service and chilled water service to Caterpillar's Mossville plant, the Agreement permits Caterpillar to close its coal-fired steam plant at Mossville in favor of a more environmentally-friendly gas-fueled plant to be operated by Medina. For these reasons and all the other reasons set forth above, the Agreement and the sale of wholesale energy to CILCO by Medina pursuant to the Agreement are in the public interest.

WHEREFORE, Central Illinois Light Company respectfully requests the Illinois

Commerce Commission to enter an order making the following determinations:

- a. The Commission has sufficient regulatory authority, resources and access to books and records of CILCO and the books and records of Medina with respect to any transactions between Medina and CILCO to exercise the Commission's regulatory authority to assure that the additional determinations hereinafter set forth are correct and are not violated;
- b. The execution of the Agreement and the purchase by CILCO of wholesale energy pursuant to the Agreement:
 - i. will benefit consumers,
 - ii. does not violate any Illinois law,
 - iii. would not provide Medina any unfair competitive advantage by virtue of Medina's affiliation or association with CILCO, and
 - iv. is in the public interest.

Respectfully submitted,

CENTRAL ILLINOIS LIGHT COMPANY

By:



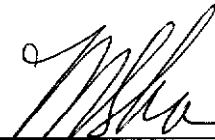
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State of Illinois)
) SS
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VERIFICATION

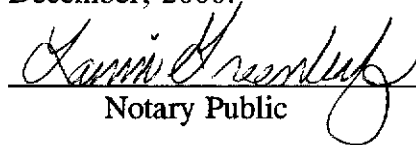
Nicholas T. Shea, being first duly sworn, upon oath deposes and states that he is the Director - Rates and Regulatory Affairs of Central Illinois Light Company, and is authorized to make this verification on its behalf; affiant has read the above and foregoing Petition of Central Illinois Light Company for entry of an order finding and determining that if Central Illinois Light Company enters into an agreement for the purchase of wholesale electric energy from AES Medina Valley Cogen, an affiliated entity, the agreement and the purchase of wholesale electric energy will benefit customers, does not violate any State law, would not provide any unfair advantage to the affiliate, and is in the public interest; affiant is familiar with the facts stated in the petition, and the same are true and correct to the best of affiant's knowledge and belief.

Further affiant sayeth not.



Nicholas T. Shea

Subscribed and sworn to
before me this 26th day of
December, 2000.



Notary Public